

13 March 1975

## MEMORANDUM

SUBJECT: Situation in Panama

## INTRODUCTION

Brigadier General Omar Torrijos is firmly in charge in Panama. Since 1968 he has made the decisions and set the policies. Torrijos has consolidated and legitimized his regime, earned for it a considerable degree of public approval, and maintained one of the highest economic growth rates in Latin America. He has worked particularly hard to gain the support of youth, peasants, and urban labor. He has substantially expanded educational opportunities, created a Labor Ministry, raised the wage level, and promoted low-cost food and housing programs. In his frequent trips to areas outside the capital, he has been cautious about making promises he is not certain he can fulfill.

Torrijos calls his government "revolutionary." The basic elements of this "revolution" seem to be a shift in power from the traditional political and economic elite -- the "oligarchy" -- to the middle and lower classes; a number of fundamental changes in the institutions of government; and a modification of social values and goals, with strong emphasis on nationalism. A key goal of his government is national integration, meaning not only the elimination of the Panama Canal Zone that physically divides the country, but also the integration of all Panamanians -- peasants, Indians, and slum dwellers as well as businessmen and wealthy farmers -- into the national society. Most of his policies have been rooted in a mixture of nationalism and populist reformism. The slogan "Neither with the right nor with the left, but with both hands for Panama" not only reflects his pragmatism, but also captures his approach to government.

Thus far, Torrijos has not seriously tried to alter fundamentally Panama's economic system based on international commerce and banking. To have done so precipitously would have provoked economic disaster

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for Panama and foreshadowed the end of Torrijos' political power. The fairly modest reforms have been improvised largely by a small group of young, middle-class civilian administrators who support the regime because they view it as an opportunity to push for social and economic change within an over-all program of national development.

#### THE GOVERNMENT

Torrijos' official title, according to the 1972 constitution, is "Maximum Leader of the Panamanian Revolution." In this role he holds, until 1978, most of the powers usually vested in a head of state. The titular President, Demetrio Lakas, is a civilian who was picked by Torrijos and "elected" by a controlled legislature. Under the centralized system of government, the President, with Torrijos' approval, appoints the provincial governors, who in turn appoint all mayors.

Thus the only directly elected officials are those in the legislative branch. The most important legislative body is the National Assembly of Community Representatives, composed of 505 people elected by the country's lowest level political subdivision, corresponding to US wards. The National Assembly elects the President and Vice President for six-year terms, and performs some of the other usual functions of a legislature. However, it meets for only one month each year, mainly acts on measures submitted to it by the executive branch, and largely serves as a channel by which the administration can tell how it is doing on the local level.

The body that really sets most policies is the National Legislative Council, composed of the President and Vice President, the head of the National Assembly, the members of the cabinet, and a few other officials. The key individual in the Council, and one of the most influential civilians in the government, is Torrijos' brother in law, Marcelino Jaen.

The real key to Torrijos' power is his authority as commander of the 7,500-man National Guard, the country's only military and police organization. At 46, Torrijos is the Guard's only general officer. He is some years older than other officers, most of whom

seem to prefer to have him in charge rather than one of their contemporaries. A handful of dissatisfied officers did attempt to oust Torrijos in 1968 and 1969, but none has challenged his leadership since. The officers of the Guard's General Staff continue to have at least a consultative role in national decision-making, and the commanders of the ten military zones into which Panama is divided are the most powerful local representatives of the national government. Their loyalty to Torrijos is based on his continued effective performance, and he makes frequent personal contacts at all levels of the Guard in order to reinforce his authority and his image of competence. He also uses the Assistant Chief of Staff for Intelligence, Lt. Col. Manuel Noriega, to keep a constant finger on the pulse of the Guard.

#### POWER GROUPS OUTSIDE THE GOVERNMENT

All elective offices in Panama are now filled on a non-partisan basis. Before Torrijos came to power there were at least ten parties competing for the voters' favor, although most were relatively weak and were active only at election time. The largest party -- the Panamenista Party -- was the personal vehicle of Arnulfo Arias, who although elected President three times has never completed a term. Since 1968 the parties, with one exception, have not been allowed to function. The 1972 constitution makes provisions for parties, but this has not been implemented. Although the government founded a political organization called the New Panama Movement in 1969, it has largely remained a paper organization, and Torrijos uses his frequent personal contacts with the populace and his channels through the National Guard to measure and sustain the regime's popularity.

The one political organization that has continued to operate is the People's Party, Panama's small, Moscow-line Communist Party. In part the People's Party's present influence derives from its opportunism. It alone among the country's parties was not hostile to the Guard's takeover of the government in 1968. Party leaders saw the coup as an opportunity to gain a measure of influence by allying with the Guard, offering their capabilities in the media and among students, labor, peasants, and community organizations to rally a militant clique in favor of the new government. The Communists know that Torrijos is using them,

but they believe that in the long run they will benefit from placing party members in some government jobs and trying to keep a hand in the labor and student ranks. However, the party lost some of its influence among students last year when leaders of the Panamanian Students' Federation shifted their primary allegiance from the Communists to Torrijos.

No national organizations have come forward to fill the vacuum left by the parties. Probably the closest thing to an organized pressure group is the National Council of Private Enterprise (CONEP), representing most important business and financial interests. By showing some degree of restraint, however, Torrijos has kept the business community off-balance. Things have never been allowed to get so bad that the private sector felt compelled to unite in a meaningful opposition to the government. Instead, Torrijos has kept the business community convinced that it has far more to lose through opposition than acquiescence. Nevertheless, when united, the business community can still exert considerable pressure on the government, because Torrijos is aware that economic prosperity is based on private sector investment. Torrijos' intuitive dislike for the old-line business leaders is likely to persist, however, and the business community will, on balance, remain wary of government intentions, but the current equilibrium is likely to continue. On the positive side, Torrijos has developed a rapport with, and made converts of, some of the younger businessmen.

Although relations between Torrijos and the Catholic Church were cool during the administration's early years, and worsened over the government's alleged involvement in the disappearance of an activist priest in 1971, the situation seems to have improved since then. Recently, the leading prelate, Archbishop Marcos McGrath, has voiced support for some of Torrijos' programs. The question of public versus private education seems the most likely to generate friction between the church and the government in the long run.

#### THE ECONOMY

Panama's rate of economic growth, which was the highest in Latin America during the 1960s, has slowed somewhat during the 1970s. Although its performance

remains relatively good, inflation and other external pressures are having an increasing effect. Panama has a relatively open economy, in which the important roles of international commerce, external financial resources, and tourism would mean that the country would be considerably affected by any world economic decline.

During the past several months the government has taken steps to combat inflation, to get people to work harder, and to boost foreign exchange earnings by increasing exports. Torrijos has labelled 1975 "The Year of Productivity." The exhortations for belt-tightening have gotten a favorable reception -- at least publicly -- from management and labor, but protests are certain to be heard when the time for making sacrifices actually arrives.

The Torrijos government has been much more inclined than previous ones to stimulate economic growth through public investment. Government capital spending has been particularly aimed at developing infrastructure, housing, and agriculture. The government now plans to invest \$2.4 billion in these areas over the next five years.

Probably the most positive aspect of the Panamanian economy since 1968 has been the country's development as an international banking center. This has been made possible by Panama's liberal banking law, its advantageous location, good communications and transportation facilities, absence of exchange controls, and use of the US dollar as the national currency. Panama is especially attractive to depositors from South America because it is the principal banking center using the Spanish language. Since 1970, when the new banking law went into effect, the number of banks licensed in Panama has increased from 25 to 63, with assets in the country of over \$5.6 billion. About four-fifths of these banks are subsidiaries of foreign financial institutions, including most of the largest in the US. A possible drawback to Panama's role as a banking center is that in the event of an international financial crisis the foreign deposits in Panama could quickly be withdrawn.

An increasingly important asset for Panama is the Free Zone at Colon at the Atlantic terminus of the canal. Several hundred million dollars worth of goods pass

through it each year; the amount is increasing by about 20 percent annually. The Panamanians claim the Free Zone would be more beneficial if it could be expanded into an adjacent area now held by the US.

#### FOREIGN RELATIONS

General Torrijos feels there are only two other "revolutionary" regimes left in Latin America -- the Velasco government in Peru and the Castro government in Cuba. He looks on Velasco as somewhat of a "brother"; both took power in October 1968 and both are determined to carry out basic economic and social changes. Torrijos made a point of visiting Lima during his first major foreign swing last year.

Torrijos values his friendly relationship with Fidel Castro as certification of his "revolutionary" credentials. For several years the two countries have had extensive cultural interchanges, and recently a modest amount of trade has been developing. Diplomatic relations were established last August. There are approximately 20 Cubans attached to the embassy in Panama City, and there are some small Cuban technical assistance teams working on projects such as improving sugar production in the interior. Torrijos seems to have given the Cubans strict guidelines about what they can do in Panama, and is watching them to make sure they comply. There is no information to indicate that the Cubans in Panama are supporting any extremist or subversive group in that country, or that they are using Panama to train any foreign groups.

Panama has diplomatic relations with most Eastern European Communist nations, but not with the Soviet Union or China. Trade delegations from both countries have visited Panama, and Torrijos' policy of having relations with as many countries as possible may lead him to add the last two major powers to the list.

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